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CORPORATION FILE

ANNUAL REPORT 1970

For The Year Ending January 31, 1971

KING'S

DEPARTMENT STORES, INC.

TEN-YEAR FINANCIAL SUMMARY

For The Years Ended January 31

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Total Sales	$216,915,000	$213,091,000	$201,288,000	$156,771,000	$128,392,000	$111,706,000	$100,819,000	$80,686,000	$62,031,000	$51,362,000
Leased Department Sales	31,560,000	32,361,000	32,019,000	26,847,000	22,351,000	27,041,000	28,722,000	22,770,000	14,416,000	9,917,000
Net Sales	185,355,000	180,730,000	169,269,000	129,924,000	106,041,000	84,665,000	72,097,000	57,916,000	47,615,000	41,445,000
Leased Department and Other Income	3,962,000	3,655,000	3,609,000	2,771,000	2,386,000	2,887,000	3,012,000	2,287,000	1,504,000	1,047,000
Total Income	189,317,000	184,385,000	172,878,000	132,695,000	108,427,000	87,552,000	75,109,000	60,203,000	49,119,000	42,492,000
Cost of Goods Sold and Expenses	174,886,000	171,535,000	162,256,000	123,649,000	100,930,000	80,884,000	69,315,000	56,911,000	46,512,000	39,865,000
Income before Taxes	14,431,000	12,850,000	10,622,000	9,046,000	7,497,000	6,668,000	5,794,000	3,292,000	2,607,000	2,627,000
Provision for Taxes	7,123,000	6,601,000	5,071,000	4,249,000	3,393,000	2,990,000	2,690,000	1,571,000	1,306,000	1,293,000
Net income before Extraordinary Item	7,308,000	6,249,000	5,551,000	4,797,000	4,104,000	3,678,000	3,104,000	1,721,000	1,301,000	1,334,000
Extraordinary Item	379,000	—	—	—	—	—	—	—	—	—
Earnings Per Share:* Before Extraordinary Item	1.70	1.46	1.30	1.13	.97	.89	.76	.43	.32	.37
Extraordinary Item	.09	—	—	—	—	—	—	—	—	—
Stock Split (Stock Dividend)	—	—	2 for 1	5 for 4	10%	—	5 for 4	5%	5%	2%
Cash Dividends	.40	.40	.40	.25	.25	.25	.15	—	—	—
Number of Stores	81	79	78	68	45	41	35	31	25	18

*Based on average number of shares outstanding for each year.

Financial Highlights

	1971	1970	Percent Change
Current Assets	$38,923,000	$37,989,000	+ 2.5%
Current Liabilities	8,902,000	13,379,000	—33.5%
Working Capital	30,021,000	24,610,000	+22.0%
Current Ratio	4.4	2.8	+57.1%

TO OUR SHAREHOLDERS:

May 1, 1971

The fiscal year ended January 31, 1971, King's twenty-first anniversary, was a year in which the record of more than a decade of increased sales and substantial earnings growth was maintained under adverse retail conditions.

OPERATING RESULTS

Including an extraordinary item, net earnings rose 23% to a total of $7,687,000, a gain of $1,438,000 over the previous year. Pre-tax income was 6.7% of sales and we achieved a 24% return on invested capital of $32,084,000 at February 1, 1970.

Sales for the year ended January 31, 1971 were $216,915,000 compared with $213,091,000 for 1969. Excluding the extraordinary item, earnings per share increased to $1.70 from $1.46. The extraordinary item added 9¢ per share to 1970 earnings.

DIVIDENDS

In February your Board of Directors authorized a 2 for 1 stock split which was distributed March 22nd to holders of record on March 8, 1971. At the same time the Board increased the cash dividend by 40% by declaring a regular quarterly dividend of 14¢ which is equivalent to 7¢ on the new shares. This cash dividend was paid March 22, 1971 to record holders on March 8, 1971.

The stock split was effected to provide a broader stock distribution. Management recommended the increase in the cash dividend because of higher earnings.

FINANCIAL POSITION

Record earnings have again augmented our historically strong financial position.

At fiscal year's end, current assets were $38,923,000 with current liabilities of $8,902,000. Our working capital increased to $30,021,000 from $24,610,000 for the previous year.

OPERATIONS

Five new King's stores, that added 325,000 square feet of floor space, were opened during the year.

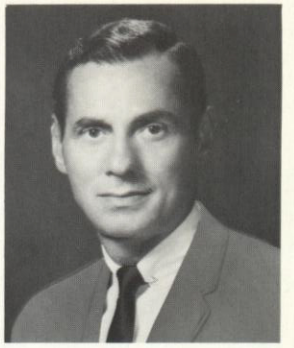
Fairless Hills, Pennsylvania and Greenville, North Carolina, opened in the Spring and Gettysburg, Pennsylvania, Kingsport and Oak Ridge, Tennessee, had Fall openings. Fitchburg, Massachusetts, closed in January 1970 because of structural damage, was reopened in August.

Our new store division, "SEW 'N SEW", offering yard goods, custom drapes, yarns, patterns and sewing machines now operates ten locations in Maine, Massachusetts, New York, New Jersey and North Carolina.

In addition, we have opened two pilot "SLAX 'N JEANS SHOPS", carrying the new uni-sex flare pants with tie-in accessories that include hats, vests, shirts and belts. Initial sales in these stores are promising. We are also testing customer acceptance in four "ACT IV" boutique departments within our King's stores.

We are happy to report that the sixteen former Miracle Mart stores, now operating as "King's", are showing favorable trends in sales and earnings.

Aaron O. Cohen
Chairman



Murray A. Candib
President

OUTLOOK

Our earnings record shows that despite economic vagaries we have been the "masters of our fate" through the application of sound business principles that included flexibility of action and rational expense controls.

We expect our 1971 performance to continue above industry average.

ACKNOWLEDGEMENT

Benjamin M. Fiegar who was our Vice President, Treasurer and member of our Board of Directors since 1961 died on August 23, 1970. A resolution of esteem and sympathy was adopted by King's Board of Directors. Our late associate's outstanding service will be gratefully remembered.

Congratulations and best wishes for his continued success are extended to F. Walter Erich, our Comptroller, who has been elected to the position of Treasurer.

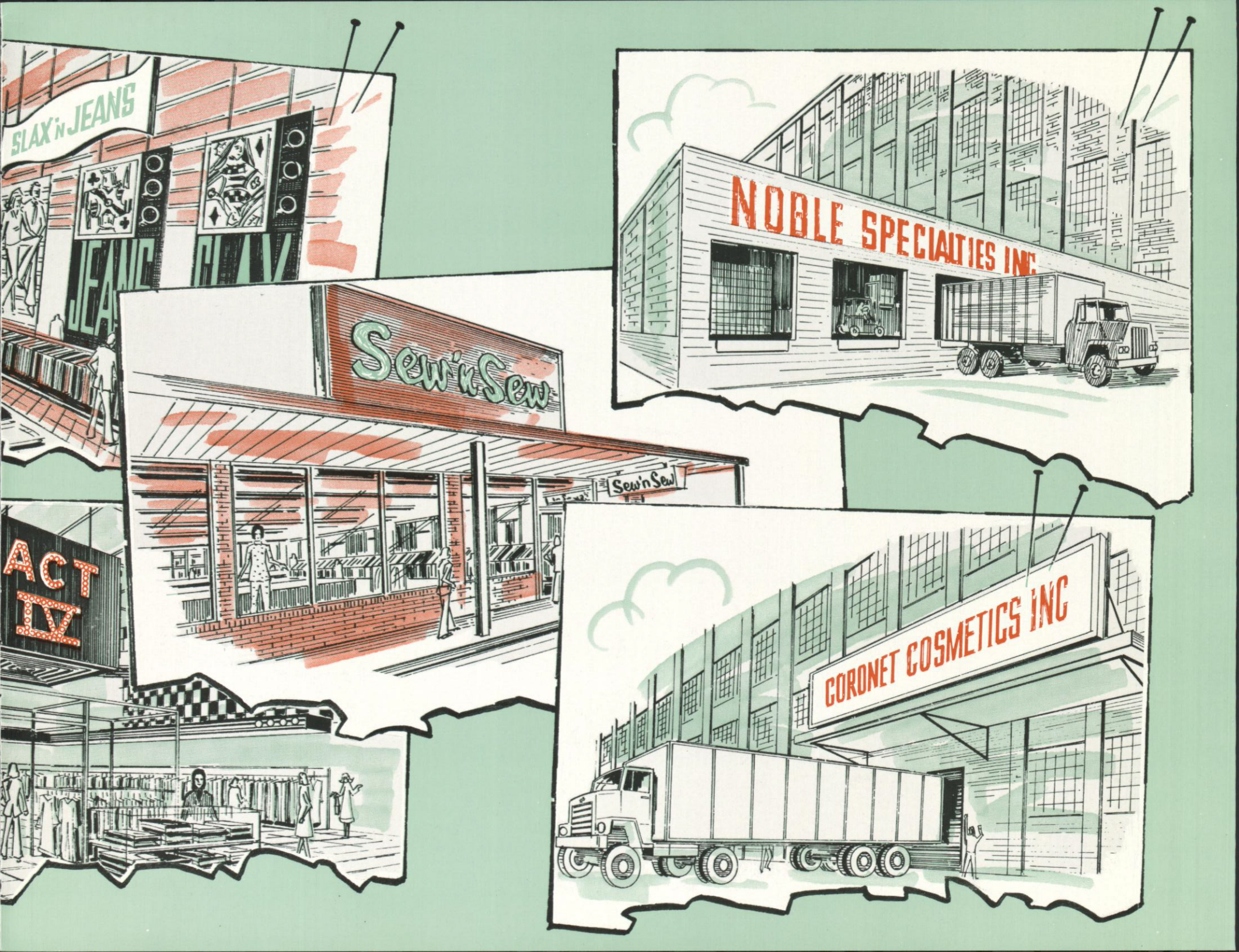
We offer our gratitude and appreciation to our shareholders, our associates, our customers and our suppliers, whose support has made possible the accomplishments of the past year.

Respectfully submitted on behalf of
the Board of Directors

Aaron O. Cohen
Chairman

Murray A. Candib
President

KING'S
LAYAWAY PLAN
LAYAWAY PLAN
CASHIER
COSMETICS
SALE
Beauty Bar
MENSWEAR
BOYSWEAR
SLAX
JEANS
SLAX
ACT IV
ACT IV


SLAX 'N JEANS
JEANS
Sew 'n Sew
Sew 'n Sew
NOBLE SPECIALTIES INC.
ACT IV
CORONET COSMETICS INC

CONSOLIDATED STATEMENT OF

Source and Application of Funds

Year ended January 31, 1971 with comparative figures for 1970

	1971	1970
Funds were provided by:		
Net earnings before extraordinary item	$ 7,308,000	$6,249,000
Add charges against earnings, such as depreciation and amortization, minority interest and deferred credits, not requiring funds	2,181,000	1,899,000
	9,489,000	8,148,000
Mortgage note payable (note 6)	787,000	—
Sale of common shares under stock option plans (note 3)	32,000	131,000
Total funds provided	$10,308,000	$8,279,000
Funds were applied to:		
Additions to fixed assets	$ 2,594,000	$ 915,000
Cash dividends	1,718,000	1,712,000
Net additions to other assets	517,000	26,000
Decrease in long-term obligations	68,000	121,000
Increase in working capital	5,411,000	5,505,000
Total funds applied	$10,308,000	$8,279,000

See accompanying notes to consolidated financial statements.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
1 Boston Place
Boston, Massachusetts 02108

The Stockholders and
Board of Directors
King's Department Stores, Inc.

We have examined the consolidated balance sheet of King's Department Stores, Inc. and subsidiaries as of January 31, 1971 and the related statement of earnings and retained earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of King's Department Stores, Inc. and subsidiaries at January 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

April 9, 1971

PEAT, MARWICK, MITCHELL & CO.

KING'S DEPARTMENT STORES, INC. AND SUBSIDIARIES

Statement of Consolidated Earnings and Retained Earnings
Year ended January 31, 1971 with comparative figures for 1970

	1971	1970
Total store sales	$216,915,000	$213,091,000
Less leased department sales	31,560,000	32,361,000
Net sales	185,355,000	180,730,000
Leased department income	3,425,000	3,521,000
Interest and other income, net	537,000	134,000
Total income	189,317,000	184,385,000
Cost of goods sold, transportation, warehousing and buying expenses	126,470,000	126,453,000
Store operating, administrative and general expenses, including lease department expenses	46,923,000	43,731,000
Depreciation and amortization (note 2)	1,254,000	1,166,000
Minority interest in earnings of subsidiaries	239,000	185,000
Total costs and expenses	174,886,000	171,535,000
Earnings before Federal income taxes and extraordinary item	14,431,000	12,850,000
Federal income taxes (note 5)	7,123,000	6,601,000
Net earnings before extraordinary item	7,308,000	6,249,000
Extraordinary item (note 1)	379,000	—
Net earnings	7,687,000	6,249,000
Retained earnings at beginning of year	21,364,000	16,827,000
	29,051,000	23,076,000
Deduct cash dividends paid, $.40 per share	1,718,000	1,712,000
Retained earnings at end of year	$ 27,333,000	$ 21,364,000
Net earnings per common share based on:		
Weighted average number of shares outstanding:		
Net earnings before extraordinary item	$ 1.70	$ 1.46
Extraordinary item	.09	—
Net earnings	$ 1.79	$ 1.46
Two for one stock split effective March 8, 1971 (note 8):		
Net earnings before extraordinary item	$ .85	$ .73
Extraordinary item	.05	—
Net earnings	$ .90	$ .73

See accompanying notes to consolidated financial statements.

Consolidated

January 31, 1971 with

Assets

	1971	1970*
Current assets:		
Cash (including certificates of deposit of $3,500,000 in 1971)	$ 5,773,000	$ 8,012,000
Restricted cash (note 1)	593,000	802,000
Receivables:		
Construction advances, including accrued interest	3,295,000	682,000
Budget, insurance claim and other	1,007,000	626,000
Total receivables	4,302,000	1,308,000
Merchandise inventories, at lower of cost or market, principally by the retail method	28,128,000	27,733,000
Prepaid expenses	127,000	134,000
Total current assets	38,923,000	37,989,000
Fixed assets, at cost (note 2):		
Land and land improvements (note 6)	773,000	243,000
Building (note 6)	668,000	—
Fixtures and equipment	13,402,000	12,087,000
Leasehold improvements	1,441,000	1,360,000
	16,284,000	13,690,000
Less accumulated depreciation and amortization	7,916,000	6,662,000
Net fixed assets	8,368,000	7,028,000
Other assets:		
Goodwill (note 1)	—	151,000
Unamortized leasehold acquisition costs (being amortized over lives of leases)	1,015,000	1,103,000
Investments and deposits	182,000	184,000
Other receivables	609,000	174,000
Total other assets	1,806,000	1,612,000
	$49,097,000	$46,629,000

*Certain accounts have been reclassified to conform to 1971 presentation.

See accompanying notes to consolidated financial statements.

Balance Sheet

Comparative figures for 1970

Liabilities and Stockholders' Equity

	1971	1970*
Current liabilities:		
Notes payable:		
Banks and other	$ —	$ 4,092,000
Current installment on mortgage note payable (note 6)	39,000	—
Total notes payable	39,000	4,092,000
Accounts payable	3,772,000	3,511,000
Accrued expenses	2,755,000	2,504,000
Federal income taxes	2,336,000	3,272,000
Total current liabilities	8,902,000	13,379,000
Deferred compensation	300,000	279,000
Deferred Federal income taxes applicable to:		
Accelerated depreciation deducted for tax purposes	595,000	571,000
Deferred compensation	(144,000)	(120,000)
Net deferred Federal income taxes	451,000	451,000
Mortgage note payable (note 6)	748,000	—
Minority interest in subsidiaries	611,000	436,000
Stockholders' equity:		
Preferred stock, $1 par value. Authorized and unissued 1,000,000 shares	—	—
Common stock, $1 par value. (notes 3 and 8) Authorized 10,000,000 shares; issued 4,296,000 shares (1970 — 4,293,000 shares)	4,296,000	4,293,000
Additional paid-in capital (note 4)	6,456,000	6,427,000
Retained earnings	27,333,000	21,364,000
Total stockholders' equity	38,085,000	32,084,000
	$49,097,000	$46,629,000

Commitments and subsequent event (notes 7 and 8)

Notes to Consolidated Financial Statements

January 31, 1971

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned except Miracle Mart, Inc. which is approximately 81% owned.

During the year, the final adjustments in connection with the purchase price for Miracle Mart, Inc. and the claims under Chapter XI of the Federal Bankruptcy Act were determined. The restricted cash of $593,000 is being held by the Court appointed distributor and will be returned to the Company after the final accounting has been made. The extraordinary item of $379,000 included in the net earnings of the Company represents the tax benefit of the net operating loss carry-forward of Miracle Mart, Inc. after first applying the tax benefit to eliminate the remaining goodwill arising from the acquisition of Miracle Mart, Inc.

(2) Fixed Assets — Depreciation and Amortization Policy

Depreciation of fixed assets and amortization of leasehold improvements are provided for book purposes on the straight-line method at rates which are sufficient to write off the cost of the assets over their estimated useful lives. The depreciation and amortization rates used during the period were 4% on land improvements, 2½% on the building and 10% on fixtures and equipment and leasehold improvements.

(3) Stock Option Plans

Options to purchase shares of common stock have been granted to officers and key employees at 100% of fair market value on date of grant, exercisable at the cumulative rate of 25% annually, subject to acceleration at the discretion of the Stock Option Committee. The Stock Option Committee accelerated stock options for 7,750 shares for a deceased officer; these options were exercised on February 22, 1971. At January 31, 1971, 31,074 shares were available for future grants.

There were outstanding at January 31, 1971, options to purchase 104,197 shares at prices ranging from $11.00 to $17.25 a share. During the year, options were exercised to purchase 2,979 shares at prices ranging from $8.09 to $13.00 a share or a total of $31,710, as compared with quoted market prices ranging from $12.38 to $26.25 a share or a total of $73,743. Options to purchase 27,203 shares were exercisable at January 31, 1971 at prices ranging from $11.00 to $14.94 a share.

Stock options are protected against dilution in the event of stock splits, stock dividends and similar events. The above data does not reflect the two for one stock split as described in note 8.

The Company has not included reserved option shares of its common stock in the calculations of net earnings per share since the effects of such inclusion would not be material.

(4) Additional Paid-in Capital

Balance January 31, 1970	$6,427,000
Excess of option price over par value of 2,979 shares issued under stock option plans	29,000
Balance January 31, 1971	$6,456,000

(5) Federal Income Taxes

	1971	1970
Taxes currently payable	$ 6,627,000	$6,196,000
Utilization of net operating loss carry-forward of Miracle Mart, Inc.	520,000	365,000
Deferred taxes, net	(24,000)	40,000
	$7,123,000	$6,601,000

At January 31, 1971, there were available to the Company, for application against future taxable income of Miracle Mart, Inc., loss carry-forwards of approximately $4,500,000 of which $1,600,000 expires January 31, 1972 and $2,900,000 expires January 31, 1973.

(6) Mortgage Note Payable

The mortgage note payable, secured by land and building costing $1,198,000, is payable to 1984 in monthly installments of $7,046 including interest at 5¾%.

(7) Commitments

Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amount to approximately $6,973,000 at January 31, 1971. Such leases will expire on various dates to 1996; however, it is anticipated that as leases expire, they will be renewed or new leases will be executed. Total rent expenses for the year amounted to approximately $7,939,000.

(8) Subsequent Event

On February 2, 1971, the Board of Directors of the Company authorized, effective March 22, 1971, a two for one stock split to holders of record of the Company's common stock at the close of business on March 8, 1971. In addition, the Company increased the regular quarterly dividend from $.10 per share to $.14 per share on the number of shares outstanding before the distribution of the two for one stock split.

Directors

Murray A. Candib

Aaron O. Cohen

Aaron G. Goldberg

Nathan Greenberg

Jack I. Hartblay

William F. Kenney

Charles J. Kittredge, Senior Vice President,
The First National Bank of Boston

H. Stanley Krusen, President/Retired
Shearson, Hammill & Co., Incorporated
New York

Officers

Aaron O. Cohen,
Chairman of the Board

Murray A. Candib,
President

William F. Kenney,
Executive Vice President

Aaron G. Goldberg,
Vice President—Merchandising

Jack I. Hartblay,
Vice President—N. Y. Office

Nathan Greenberg,
Vice President—Finance;
Secretary

F. Walter Erich,
Treasurer

Transfer Agents

The First National Bank of Boston
Marine Midland Trust Company, New York

Registrars

New England Merchants National Bank, Boston
Chemical Bank New York Trust Company

General Counsel

Parker, Chapin and Flattau
330 Fifth Ave., New York

Auditor

Peat, Marwick, Mitchell & Co.
1 Boston Place, Boston, Mass.

Executive Offices 150 California Street, Newton, Massachusetts 02158

King's Department Stores, Inc. and Subsidiaries

CONNECTICUT
Manchester
Meriden
Milford
New Haven
Seymour
Stamford
West Hartford

FLORIDA
Ft. Lauderdale
West Palm Beach

INDIANA
Ft. Wayne (3)

KENTUCKY
Owensboro

MAINE
Auburn
Bangor
Falmouth

MARYLAND
Cumberland
Hagerstown

MASSACHUSETTS
Braintree
Brockton
East Longmeadow
Fitchburg
Hyannis
Methuen
Newton
North Attleboro
Quincy
Shrewsbury
Springfield
Tewksbury
West Roxbury

MICHIGAN
Grand Rapids

NEW HAMPSHIRE
Concord
Plaistow
Portsmouth

NEW JERSEY
Edgewater Park
Vineland

NEW YORK
Albany
Buffalo (3)
Niagara Falls
Plattsburgh

NORTH CAROLINA
Asheboro
Durham
Goldsboro
Greensboro
Greenville
Raleigh
Sanford
Shelby
Statesville
Winston-Salem (2)
Wilmington

OHIO
Alliance
Lancaster
Niles

PENNSYLVANIA
Allentown
Cleona
Fairless Hills
Gettysburg
Harrisburg
Johnstown
Kingston
Lansdale
Minersville
Reading
Scranton
Willkes Barre
York (2)

TENNESSEE
Kingsport
Oak Ridge

VERMONT
Rutland

VIRGINIA
Newport News
Norfolk (2)
Richmond (2)
Virginia Beach

SEW-N-SEW STORES

East Longmeadow, Mass.
Greensboro, N. C.
Greenville, N. C.
Hyannis, Mass.
Plaistow, N. H.
Plattsburgh, N. Y.
Portland, Maine
Tewksbury, Mass.
Vineland, N. J.
Winston-Salem, N. C.

SLAX-N-JEANS STORES

Meriden, Conn.
Quincy, Mass.

Coronet Cosmetics, Inc., Newton, Mass.

Noble Specialties, Inc., Newton, Mass.

Main Office: 150 California Street, Newton, Massachusetts 02158
New York Office: 330 West 34th Street, New York City 10001